by L. Jay Atkinson ☆

The Housing Market

THE strong market for new houses has been an important influence in the expansion of business activity since the end of World War II. For nearly a decade no significant letup has occurred in residential construction, and the number of nonfarm housing starts has exceeded 1 million in each of the past 6 years.

The current situation is one of very active demand. The number of starts was at a seasonally adjusted annual rate of 1.4 million for the first quarter of 1955 following a marked advance in the latter part of 1954. Immediate prospects are reflected in considerably higher VA appraisal requests than a year ago and somewhat higher FHA applications. The rise in residential construction activity during the course of 1954 followed a general easing in the money market beginning in the latter part of 1953 and a subsequent easing in mortgage financing.

The latter has taken the form of more ready availability of mortgages with liberal credit terms, chiefly those guaranteed or insured by the Federal Government. A substantial reduction has been made in minimum downpayment requirements. Some lengthening in the amortization period for mortgages and a reduction in interest rates for conventional mortgages have also occurred. The liberalization of credit terms has had a stimulating influence upon the purchase of new houses.

This article reviews some of the influences affecting the demand for housing including such physical factors as population growth, age distribution, household formation, and migration as well as such economic factors as income, liquid assets, and mortgage financing.

Influence of population growth

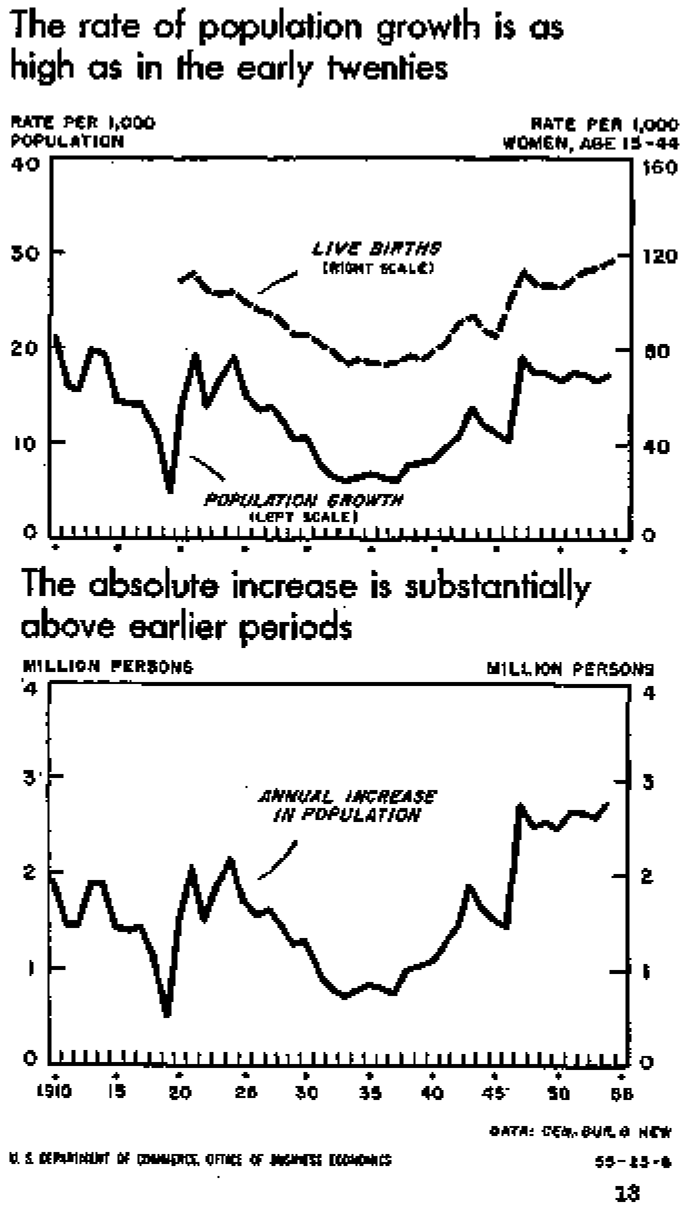
A basic aspect underlying the demand for housing is the need or space requirement of the population. Such a requirement depends both upon the total number of people and the varying characteristics of the population—age distribution, birth rate, new family formation, and the size of family or of household.

Total population is increasing about 1¾ percent per year, or about twice as fast as in the decade of the 1930's. In terms of actual numbers, as shown in the lower panel of the accompanying chart, population of the United States is now increasing about 2¾ million per year. This is about 3 times the average annual increase during the decade of the thirties, and about 50 percent above that of the twenties.

The current rate of population increase is about equal to that of the early 1920's. The rate of growth was declining during the twenties with a very substantial fall in the birth rate during that period. The birth rate continued to decline for a few years after 1930, and then recovered very slightly between 1935 and 1940. (See upper panel of accompanying chart.) It rose during the war years, and soon after World War II advanced sharply to a rate about equal to the mid-1920's, and has averaged close to this rate in the past decade.

The upsurge in births in 1947 followed the record number of marriages at the end of the war, and was mainly an advance in first births. Since then, however, the marriage rate has dropped back below that of the late 1930's, but the birth rate has been sustained by successive advances in second, third, and fourth births. Although other measures of housing requirements discussed below show varying tendencies, the pressure of rapid increase in total population is a generally expansive influence upon housing demand.

The growing need for more housing space, accompanied by high income and generally favorable financing conditions, has contributed not only to the high rate of residential construction as a whole and record expenditures for additions and alterations, but also to a more rapid growth in one-



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family houses than in multifamily units as a part of the general suburbanization movement.

For a number of years after the war, the emphasis had been upon relatively small houses, with special financing provisions introduced in 1950 for "economy" houses within the budget of moderate income families. In more recent years, however, there has been some movement toward larger houses as many families have outgrown their accommodations. The median area of new single-family houses insured by FHA has risen 10 percent in the past 5 years. In recent years, there has also been a decline in construction of multifamily units, particularly the smaller types, and governmental guaranty and insurance of these projects has been curtailed. Limited surveys have suggested some increase in vacancies for rental housing in certain metropolitan areas.

Shifts in Age Distribution

An important consequence of the changing rate of population growth in the past generation that affects housing requirements is a shift in age distribution. This shift stems primarily from two developments (1) the long decline in the birth rate in the twenties and thirties and the subsequent extended advance, and (2) the increase in life expectancy, which has been especially marked for women.

As shown in the accompanying table, the trough in births during the 1930's either limits the advance or brings actual declines in the various age groups whenever those born during the 1930's "pass through" a given age bracket. The small annual classes are followed in turn by large annual classes born during and after World War II. We are now experiencing a sustained rise in the population under 20 years of age, whereas the number in the age group 20 to 34 is currently declining and will show no substantial advance until after another decade has passed. Meanwhile large relative advances are occurring for each of the two older groups, with continued rapid rise in prospect for those 65 and older. The latter increases have special consequences for housing requirements which are discussed below in connection with changes in households.

New family formation

One aspect of shifts in age distribution which is especially relevant to housing requirements is its bearing upon the change in new family formation, which in turn is closely related to changes in the number of households. The birth pattern of the past is the primary influence affecting net new family formation, i. e., marriages less divorces, although other factors, including particularly alterations brought about by the depression and World War II, have also been important.

For a number of years, however, the average age at first marriage has been in the neighborhood of 20 for females and 23 for males, while the proportion of the population getting married, though very substantially higher than 20 years ago, has been relatively stable. The average annual number of each sex in the age group 20 to 24 years is about equal to net new family formation (see chart of females age 20 to 24).

Since the classes born in the years 1931–35 when the birth rate was quite depressed are now in this age group, net new family formation is now at a relatively low rate. Little further change in the size of the classes reaching marriageable age will occur for the next few years. During the decade of the 1960's, however, a substantial rise is in prospect, and in the latter part of the decade the number reaching these ages will be fully half again as large as at present.

The implication of this trend in new family formation is significant for housing requirements. Though the demand for new houses depends upon numerous factors, some of whose influences are not readily gauged, the change in the prospects for new family formation is an important basic influence. In summary, for the next 5 years, new family formation is to be at a relatively low rate; it will begin to rise after about 5 years, and will be up substantially in about 10 years. In other words, basic requirements arising from new family formation are going to be quite large within several years, though they are rather low in the years immediately ahead.

Since the increase in new family formation is now quite small in relation to recent building activity, the maintenance of the high current rate for the next few years turns upon other influences besides new family formation.

Among these, changes in the amount of "crowding" or "doubling up" of families in households do not appear likely to be of major importance in this period. The upsurge in family formation at the end of the War, before postwar housing construction had gotten fully underway, resulted in considerable doubling up of families. In 1947, there were nearly 3 million married couples who did not have their own household. Since that time the number of families "doubled up" has declined steadily, so that it is now only about half as large as in 1947, and somewhat smaller than in 1940. The group of approximately 1½ million couples without separate households at the present is about the same as in 1930, following the building boom of the twenties, although the proportion doubled up is considerably lower now. About 6 percent of married couples did not have their own household in 1930, whereas about 4 percent are now without a household of their own. In the past 2 years declines in the number in this group have been quite small, and further changes may be of similar magnitude.

The number of people in the older age groups is increasing both because of the natural effect of a growing population—i. e. the rising trend in births a generation or more earlier—and the reduction in mortality. These influences are bringing a rise in the number of older couples. Moreover, with more adequate retirement and other supplementary income for the rising proportion of the population in the upper age groups, more of these older couples are able to maintain their own households. In addition, there has been a pronounced tendency in recent years for older age single persons—particularly women—to maintain separate households much more commonly than in earlier periods. This "undoubling" or less consolidation of families or generations in a single household reflects a rising level of real income with increased employment opportunities for women.

Other types of households

In recent years there has been a trend toward the establishment or maintenance of households by individuals or groups other than married couples, reflecting a combination of influences, including those discussed above.

Table 1.—Change in Population by Age Groups, for the United States Including Armed Forces Overseas

[Percent]

Age groups	Annual rate of change							
	1920–30	1930–40	1940–45	1945–50	1950–55	1955–60	1960–65	1965–70
Under 20	1.1	−0.5	0.4	2.2	3.2	[1] 2.6		
20 to 34	1.3	1.1	1.0	.4	−.4	−.5	1.1	3.0
35 to 64	2.4	1.0	1.7	1.0	1.6	1.5	.9	.4
65 and over	3.4	3.0	3.2	3.4	2.7	2.6	2.1	1.8

1. Includes projections based on future birth rates.

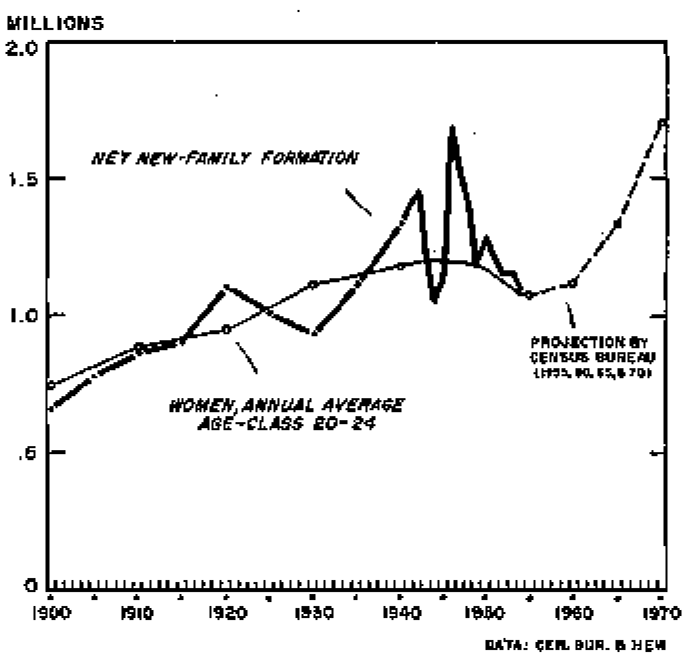
Source of data: U. S. Department of Commerce, Bureau of the Census.

Unrelated individuals, particularly, have established or maintained separate households much more commonly in recent years than in the past. Between 1950 and 1954 there was an increase of 1.2 million in unrelated individuals as household heads as compared with 1.8 million for married couples. In relative terms households of unrelated individuals increased by one-fourth as compared with a rise of only 5 percent for married couples. This influence is partially offset, however, by a tendency for an increasing proportion of the population to get married. The proportion of married persons in the adult population rose from 60 percent in 1940 to 67 percent in 1950 and to 69 percent in 1954.

Growth of households

In the 2 years ending April 1954, the total number of households increased at an annual rate of 700,000. Though the reported annual changes are somewhat erratic, perhaps as a result of technical differences in measurements, there is a clear tendency in recent years for the rate of growth to slacken somewhat. This slackening reflects the smaller classes reaching marriageable age in recent years, and a decline in the rate of undoubling of married couples and related persons. The medium series projected by the Census Bureau is for an average increase of 625,000 households annually in the next 5 years.

Family Formation and Marriageable-Age Women



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Thus, the growth in households is now appreciably smaller than during the past 15 years, whereas population growth is at a peak in absolute terms and is near the highest point of the past 30 years in relative terms. These influences would appear to be partly offsetting in their effect upon housing requirements. The high birth rate tends to make families desire larger living quarters—either additions or a larger house. Under generally favorable economic conditions, such needs have a strong positive influence upon the demand for houses.

Shifting population needs

Migration has brought some increase in total housing requirements in the United States and has had an important differential effect upon the various areas. Since the early 1920's immigration from abroad has been a relatively minor influence, but internal migration has been substantial. Approximately 5 million persons change their residence from one State to another annually, according to sample surveys conducted by the Bureau of the Census, and another 5 million move from 1 county to another within the same State.

To a considerable extent such migration tends to cancel out in a national equivalent of "musical chairs," but there are strong tides of "net" migration. The oldest of these is the net movement of population off the farm into urban areas. Between 1940 and 1950, the population residing on farms declined approximately 5 million, or nearly one-fifth, and the number of occupied farm dwelling units declined about 1 million. The number of farm residences vacated during the decade was somewhat greater in view of the construction of nearly a million new farm homes during this period. In 1950, about 10 percent of the farm dwelling units were vacant, with most of the vacancies reported to be dilapidated, or otherwise unavailable for rent or sale.

In the period since 1950, the migration from the farm has continued; by 1954, farm population had declined another 3 million despite a considerable excess of births over deaths for the farm population. This continuing and substantial net migration from farms leaves a considerable number of vacant dwellings which are unavailable for occupancy and thus not a part of the effective housing supply. A roughly equivalent number of nonfarm housing units (about 600,000) is required for these migrants in addition to that indicated by the estimates of housing needs inferred from changes in total households.

A second major net migration is from the central areas of cities to the suburbs. This is reflected in an increase of 44 percent in dwelling units in the peripheral areas of standard metropolitan areas between 1940 and 1950, whereas the number of dwelling units in central cities rose about one-fifth during the same period. The substantial growth in the number of dwelling units in central cities during the decade reflected the continued movement of the population toward metropolitan areas together with some immigration from outside continental United States. There were no large cities which failed to grow during the decade, and no extensive abandonment of dwelling units such as that occurring on farms.

At the time of 1950 census, vacancies in urban areas were relatively few, averaging 3.5 percent for total vacancies, about half of which were available for sale or rent. Thus suburbanization had as its major effect the stimulation of construction in the suburbs in preference to the central areas and may have had only limited influence upon total housing requirements or demand.

The third major net migration is the movement "toward the sun"—to the far Western and Southwestern States and Florida. In the decade ending in 1950, the number of dwelling units increased one-half in the Pacific area and one-third in the South Atlantic area including Florida as compared with less than one-fourth for the United States as a whole. These trends have continued since 1950 with these areas showing a larger number of starts during 1950–53 in relation to total dwelling units than any other area in the United States.

The net effect upon total housing requirements nationally is largely counterbalanced by less active construction in areas where population is growing more slowly or declining.

To the extent that the net migration is from metropolitan areas, the dwelling units left behind are largely available for occupancy by others, and thus total housing requirements are little affected. On the other hand, net movement from rural areas and villages remote from metropolitan areas may add substantially to housing requirements.

Table 2.—Household Status of Family Groups and Individuals in the United States

[Units in thousands]

Type of unit	1940 April	1947 April	1950 March	1953 April	1954 April	Average annual change			
						1940–47	1947–50	1950–53	1952–54
Married couples	28,517	33,543	36,091	36,596	37,346	718	874	250	325
With own household	26,571	30,612	34,075	35,138	35,875	577	1,187	510	369
Without own household	1,946	2,931	2,016	1,458	1,471	141	−314	−220	−44
Percent without own household	6.8	8.7	5.6	4.0	3.9				
Other family groups	5,711	5,374	5,624	5,943	5,965	−48	83	158	19
With own household	4,920	4,352	4,763	5,067	5,088	−81	141	146	10
Without own household	791	1,022	861	876	877	33	−53	12	1
Percent without own household	13.9	19.0	15.3	14.7	14.7				
Unrelated individuals	9,277	8,491	9,136	9,361	9,700	−112	221	79	200
With own household (Primary individuals)	3,458	4,143	4,716	5,299	5,932	98	198	280	316
Without own household (Secondary individuals)	5,819	4,348	4,420	4,062	3,768	−210	25	−201	−117
Total households	34,949	39,107	43,554	45,504	46,893	594	1,535	636	694

Source of data: U. S. Department of Commerce, Bureau of the Census.

In any case the stimulus provided by extensive capital formation in the rapidly growing areas, through its effect upon job opportunities and incomes, exerts indirectly a stimulating influence upon the effective demand for new dwelling units.

Basic demand factors

Although the physical or demographic influences upon the demand for housing are basic forces, the principal economic factors are also of key importance. Despite the significance of each of these factors, however, much of the fluctuation in housing demand appears to be only vaguely related to corresponding changes in the available demographic and economic indicators.

Like capital investment generally, new housing investment appears to behave to a considerable extent autonomously; thus, while it is conditioned by the types of demographic factors which have been discussed, as well as by changes in consumer income and price relationships, it also exerts an independent influence upon economic activity. It tends to form a higher proportion of gross national product when the latter is high and to form a smaller proportion when product is depressed; this is only a general relationship, however, and there appear to be special waves or cyclical effects in housing activity that are more pronounced than those of aggregate output. They appear to be affected by growth requirements and the demand situation in general, but the latter influences appear to be of varying significance from one period to another. As a consequence, comparisons based upon time series do not show a close and stable relationship between growth needs and consumer income on the one hand and residential construction on the other. Credit conditions are an important additional determinant of housing demand, but to a considerable extent changes in the rate of residential construction cannot be determined by reference to other series.

This is illustrated by a comparison of housing activity in the interwar period and the principal demographic and economic series available. For the period 1922–40, nonfarm housing starts were more closely correlated with population growth and real disposable income per household than with other readily available series. The price of houses in relation to prices generally and the extent to which starts had exceeded household formation in the preceding decade were also significant influences.[1]

These variables combined into a conventional single regression equation appear to move in the same general direction as starts in most years, but the extent of the movement is only roughly approximate. Furthermore, the apparent cycle effect in starts is so large from the peak to the trough during the prewar period, that extrapolations to the postwar years when the principal demand factors are considerably higher than at any time before the war is not appropriate.

Influence of income

Although it cannot be measured in any precise way, it is apparent that the influence of the substantial general rise in income per spending unit or per household from the prewar to the postwar period—accompanied by an increase in the number of households—has been a basic factor in the strong postwar housing market. These changes have brought sharp declines in the number of spending units in the lower and lower-middle income groups and large rises in numbers in the upper-middle and higher income groups even after rough adjustments are made for changes in prices. The general picture of income distribution from the war period to the present is available from estimates of the Office of Business Economics.[2]

Although these data cannot be directly related to the purchase of houses, information from the Federal Reserve Board surveys of consumer spending and financing are suggestive. The Consumer Finance Survey has found that purchasers of new and used houses are more concentrated in the upper income brackets than are home owners as a group. This appears to reflect somewhat greater mobility for higher income families as well as a tendency to time purchases of houses in periods when income is high.

House purchasing was particularly concentrated in the upper income groups during the years 1952 and 1953. In these years, spending units in the upper third of the income distribution bought about 60 percent of the houses purchased, the middle third bought about 25 percent, and the lower third about 15 percent. The proportion of families owning homes was about twice as high in the upper third of the income distribution as in the lower third. The high proportion of families buying houses in the upper income groups in these years appears to reflect the influence of credit restrictions which resulted in the least liberal credit terms of the entire period since the end of World War II. For earlier years, 1947–51, those buying homes were more broadly distributed throughout the income range, but they were not so broadly distributed as home ownership.

Equity of individuals

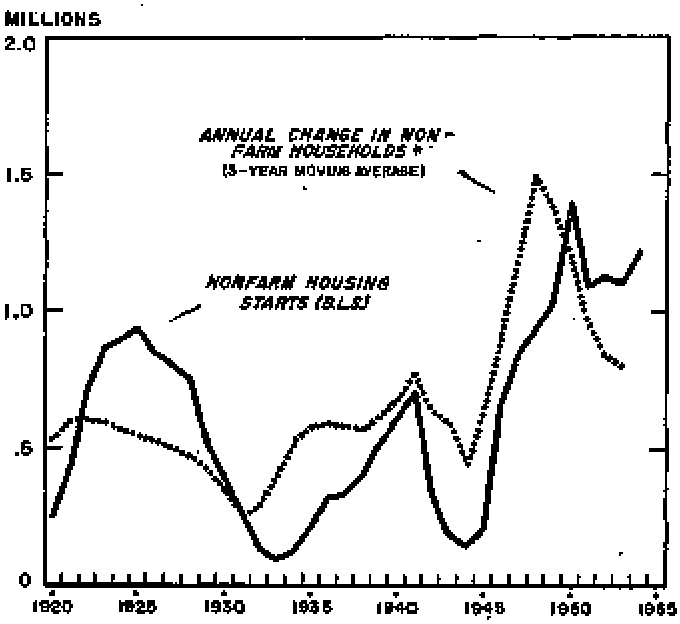
Large liquid asset holdings have also had a favorable influence upon the demand for housing since the end of World War II. Throughout this period the liquid asset

1. For this period, no series which reflects the influence of financing terms is readily available.
2. Income Distribution in the United States, by Selma F. Goldsmith, SURVEY OF CURRENT BUSINESS, March 1955, and a Supplement to the SURVEY OF CURRENT BUSINESS 1953, Office of Business Economics, U. S. Department of Commerce, U. S. Government Printing Office.

position of individuals as a group has been more favorable than for any year before the war for which data are available, though there has been some decline in liquidity from the war years.

The volume of holdings of currency, bank deposits, and government securities as estimated by the Securities Exchange Commission at the end of 1954 was about equal to disposable income in that year. This compares with a ratio of liquid assets to disposable income of about one and one-fourth in 1946 and four-fifths in 1940. Though liquid asset holdings are fairly broadly distributed by income level, according to the Federal Reserve Board Survey of Consumer Finances, such holdings other than currency tend to be concentrated into a rather small proportion of total consuming units. The top fifth of the liquid asset holders have about 80 percent of the value of liquid assets, and the top two-fifths hold about 95 percent.

Housing Starts and Changes in Households



* Changes were derived from data published by the Joint Committees on Housing and on the Economic Report

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The only specific information relating asset holdings to house purchasers is a recent sample survey of VA-guaranteed mortgage holders. This survey indicated that those obtaining downpayment loans had liquid assets holdings substantially larger on the average than the required downpayment, but no information is available on the distribution of such assets among the various buyers. For purchasers obtaining no-downpayment loans, however, liquid asset holdings were relatively small.

Holdings of nonliquid assets or equity of individuals are also an important influence affecting the demand for housing. Much of such equity is in houses, and the purchase of a house often involves the sale of another. Accordingly, the strong trend in the price of used houses in most of the postwar period has been an important—though not necessarily an independent—influence affecting the sale and hence the construction of new houses. As indicated in the chart on page 19, the average price of used houses purchased with VA-guaranteed loans has advanced slightly in the past two years following extended advances in earlier years. A similar trend prevails for existing houses purchased with FHA-insured loans.

Mortgage Financing

The role of financing in the demand for housing is of basic importance. A very large proportion of funds invested are borrowed, particularly for the purchase of lower-priced houses. There is a considerable range in downpayment requirements and amortization periods for various types of financing at any given time. Variations in the terms of such loans, in the availability of the various types, in the interest rate, and in the related special fees or charges for loans made are important influences affecting the sale of houses.

The influence of financing has been particularly marked since the end of World War II as other demand influences have for the most part changed only moderately, whereas substantial and sometimes rather abrupt changes have occurred in financing terms. Thus incomes have been high and rising during most of the period, and housing needs of a growing population have continued large, although not so pressing as in the immediate postwar years.

In this generally strong demand situation, changes in credit terms and in the availability of credit for mortgage lending have been important influences. Relaxation in credit terms in 1949 and early 1950, and again during 1954 coincided with expansion in new house construction and sale. These two periods of credit ease were preceded by liberalization in lending regulations, and in both instances by a slackening in the demand for funds by business. In addition, the Government pursued an active credit-ease policy during each of these periods. An increase in unemployment and a leveling off in prices generally made resources readily available for activating the generally strong demand situation for new houses. Relative stability in construction costs and in the price of new houses prevailed in each of these two periods of expanding construction.

FHA Financing

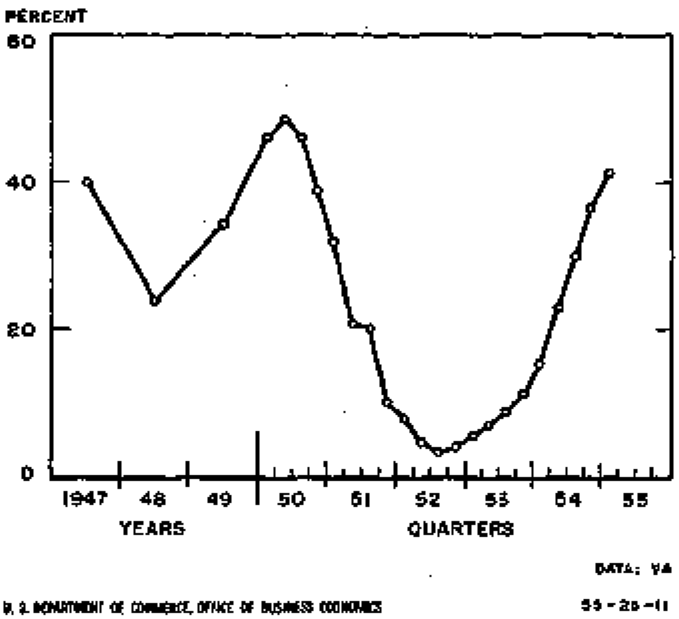
A brief review of real estate credit developments in 1949 and early 1950 suggests the importance of credit relaxation in expanding the market for houses in the period before June 1950. Provisions regulating FHA insured mortgages for single family homes and for the construction of rental projects were liberalized in mid-1948. The maximum amount that could be insured and the maximum ranges for 80 percent and 90 percent mortgages were increased, partly to cover higher costs of construction. Mortgages up to 95 percent of the value of the property were provided for owner-occupied homes in the lower price brackets. Maturities were also lengthened. The Housing Act of 1948 had as a chief purpose stimulation of housing in the lower price and rental ranges. The changes in the law contributed to a substantial easing in the mortgage market, and an enlarged flow of credit both with and without Federal support became available on easy terms.

The ratio of loans to value of property insured by FHA under Section 203 for new single-family houses increased in 1949, and the number of units started under FHA inspection rose from 294,000 in 1948 to 364,000 in 1949 and 487,000 in 1950. During this period the combination FHA first trust and VA second trust loans, characterized by low downpayments, were widely used. Of the VA first mortgage loans (Section 501) the proportion with no downpayment required rose from 24 percent in 1948 to 34 percent in 1949 and 44 percent in 1950. In April 1950, the legal maximum interest rate for FHA insured mortgages was lowered from 4½ percent to 4¼ percent as a part of the general relaxation in mortgage credit terms.

In July 1950 specific mortgage credit regulations were adopted to restrain the housing market, but there is a considerable lag between changes in regulations affecting applications for loans and the effects upon the sale of houses. Despite progressive tightening in terms for mortgage lending in the latter part of 1950, including the reimposition of Regulation X by the Federal Reserve Board, the tightening in credit was little felt during the latter half of 1950 and was only partially effective in 1951. As shown in the accompanying chart, credit regulations were more fully effective in 1952. Regulation X was relaxed in June 1952 and suspended in April 1953, but there was some lag before any substantial relaxation in loan requirements was observable.

No-Downpayment VA Loans

as a percent of total VA-guaranteed primary home loans



For the group of borrowers financing their purchases with FHA insured loans, detailed records of financing terms in relation to income indicate that liberalization of credit terms developed only gradually after the suspension of Regulation X. For lower-priced houses, the proportion of loan to sale price was higher than for middle- and upper-priced houses, as provided in legal requirements concerning maximum loans. Even in lower-priced housing, however, downpayment requirements as late as 1954 were still substantial (averaging around 10 percent), and the ratio of current monthly housing costs to income was no higher than the 15 percent average for all single-family homes insured by FHA. Though these data include the latter half of 1954, when the maximum percentage of the property value which could be borrowed was increased, most of the loans made were based upon applications made prior to the relaxation in lending terms. Accordingly, the effects of the relaxation in terms are not evident in these figures and subsequent data are not available.

Limited information on current mortgage lending other than Government insured or guaranteed loans indicates that the general easing in credit in 1954 and the reduction in demand for funds for other purposes made loans more readily available on generally improved terms for borrowers. Both the proportion of the total price of the house represented by the primary loan and the amortization period were substantially less, however, than for Government insured and guaranteed loans.

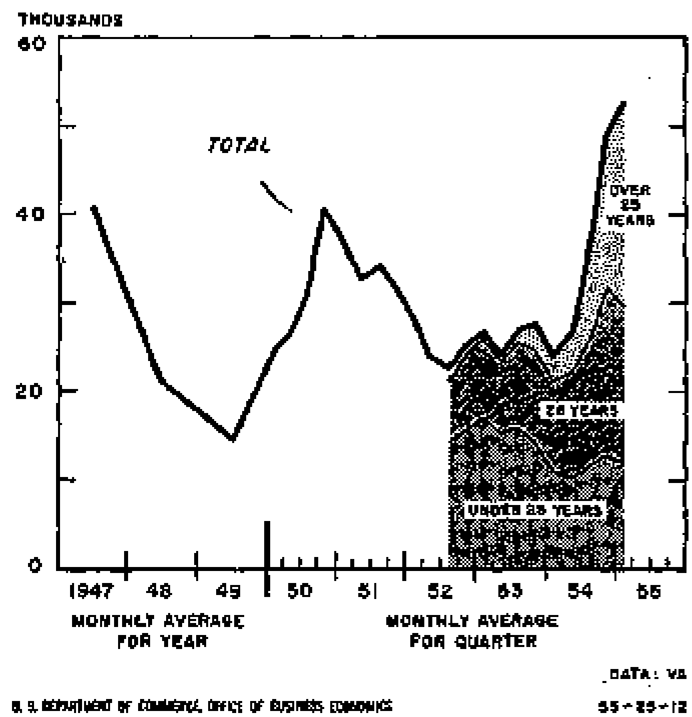
Easier terms for VA loans

For VA mortgage lending, a progressive easing in terms during 1953 and 1954 is reflected in the chart showing the proportion of 100 percent loans by VA and the proportion with maturities over 25 years. Though VA loans are not representative of home financing generally, they are an important part of the total and are the group for which expansion was most marked in 1954 and early 1955. Furthermore, some of the influences which led to liberalization of terms on such loans affected other types of lending as well.

The low point in the proportion of no-downpayment loans guaranteed by VA was reached in the third quarter of 1952, after which the proportion of such loans rose continuously through the first quarter of 1955. There was only a slow rise in such loans through 1953 with the no-downpayment loans reaching 11 percent of total VA loans closed in the final quarter of that year. The rise was accelerated in 1954, however, with an advance from 15 percent in the first quarter to 37 percent in the last quarter and some further rise in early 1955.

Distribution of VA-Guaranteed Home Loans, by Years of Maturity

Longer maturities have become more common



The same general pattern of easing characterized the maturities of loans closed, except that the increase in maturities was rather gradual through the second quarter of 1954. Up to that point, a noticeable shifting from lower maturity loans to 25-year maturities was evident, with the latter becoming more common than all the loans for maturities less than 25 years whereas it had been less common in earlier quarters. Loans with maturities over 25 years—chiefly 30-year loans—had risen to nearly one-fifth of the total by the second quarter of 1954. These moderate increases in maturities were accompanied by no expansion in total VA home loans closed, but VA requests for appraisals for new home construction rose to double the rate a year earlier, presaging the substantial rise in VA loans in the second half of 1954.

Only after mid-1954 did the easing in credit terms affect a substantial portion of buyers. In the latter half of 1954, out of about 250,000 primary loans guaranteed by the VA, approximately 75,000 had maturities over 25 years—about 3 times as many as in the first half of the year. A similar easing in downpayment requirements brought the total of VA loans for the full purchase price to 86,000 in the latter half of 1954, or nearly three times as many as in the first half. As shown in the accompanying chart, easing in mortgage terms continued throughout 1954, and in the early months of 1955. In January and February out of a total of about 110,000 primary loans closed, 40 percent were for the full purchase price and a similar proportion was for more than 25 years maturity.

The total number of houses financed through VA whose owners at the present time have little or no equity in their homes is quite a minute fraction of all mortgages outstanding, but in terms of current mortgage recordings and purchases of houses, the proportion with very liberal credit terms is a substantial share of the entire market. Those buying houses as early as 1950 have seen a considerable appreciation in building costs and prices since they bought and have obtained some increase in equity in the intervening years. For the next 2 years, 1952–53, mortgage terms were not particularly favorable. Some downpayment was required—about 15 percent was typical for FHA borrowers, between 10 and 15 percent for VA loans, and considerably more for conventional borrowers. Thus, in general, the borrowers for the years preceding 1954 have an appreciable equity in their homes.

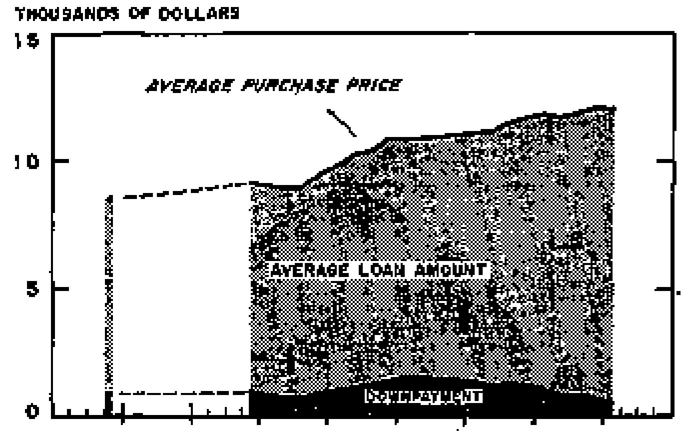
In the absence of a considerable decline in the price of houses, the total equity position of such buyers as a group has been enhanced by the purchase of a house, though they may have had a large rise in debt.

The effect of easier credit terms upon the buyer of a single-family house may be indicated by specific illustrations. For homes insured by FHA, the minimum downpayment requirements for a $15,000 house were reduced from about $3,000 to $2,000 in mid-1954. The maximum period of amortization was lengthened from 25 years to 30 years, a change that reduces monthly repayment charges on any given loan a little less than 10 percent. Thus, while the loan would be larger with the reduced downpayment, if in addition the amortization period were lengthened from 25 years to 30 years, there would be little change in monthly payments.

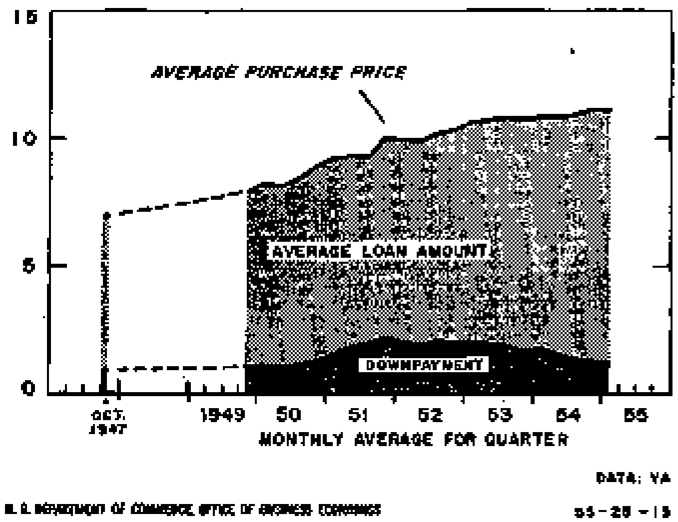
For homes financed under loans guaranteed by VA, monthly operating statistics indicate average changes in downpayments. In the first quarter of 1955, the average purchase price for new homes financed by VA primary loans was about $12,100, an increase of $300 from a year earlier. The average downpayment for these homes was $640 in the first quarter of 1955, a little more than half as much as a year earlier. Though no exact comparisons are available on the change in maturities for loans, in the apparently typical instance in which maturity was increased by 5 years (see accompanying chart), a slightly smaller monthly payment was required in the first quarter of 1955 than a year earlier. About twice as many VA loans were closed on new houses in the first qurter of 1955 as were closed a year earlier.

A rather important part of the general housing picture is the sustained demand for existing homes. As shown in the accompanying chart the average price paid for existing houses

Average downpayment on VA-guaranteed loans has declined for new homes . . .



and for existing homes



financed with VA guaranteed loans has been fairly stable during the past 2 years. There has been some decline in the size of downpayments for existing houses purchased with VA loans but downpayments average appreciably higher than those made for new homes.

Requests for VA appraisals for proposed home construction have been running about double a year earlier and applications for FHA commitments are moderatley higher than in the corresponding months of 1954.

Summary

The current strong demand for housing is based upon the joint influence of basic physical and economic factors. The effect on demand of a lower rate of family formation than that prevailing earlier in the postwar period has been offset by continued rapid increase in the population with resulting pressure for larger living quarters, and by substantial internal migration. Credit conditions appear to have been especially important in the rise of residential construction in the past year. Purchasing terms continue to be favorable and mortgage funds are in good supply despite some firming in the money market. A large and rising flow of income has been the central influence supporting the high volume of residential activity, permitting the influence of other factors to be widely operative.